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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 001764

SIPDIS

STATE ALSO FOR EEB AND NEA/I; DOE FOR GEORGE PERSON

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [EINV](#) [PINR](#) [IZ](#)

SUBJECT: IRAQ,S FIRST OIL BID ROUND SPUTTERS

REF: A. BASRAH 38

[¶](#)B. BAGHDAD 1648

[¶](#)C. BAGHDAD 1151

[¶](#)D. BAGHDAD 194

[¶](#)E. 08 BAGHDAD 3397

[¶](#)F. 08 BAGHDAD 3241

Classified By: Classified by Economic Counselor Michael Dodman, reasons
1.4 (b,d)

[¶](#)11. (C) Summary: The Ministry of Oil's June 30 bid round (ref B) resulted in a winner for only one of the eight fields on offer. A consortium led by BP and including China's CNPC won the right to begin negotiations with the GOI for a twenty-year contract to work the massive Rumaila oil field in Basrah Province. While all but one of the other fields received bids, none of the bidders was willing to accept the Oil Ministry's extremely low payment terms. However, in an unscripted effort to salvage the day (and perhaps his reputation) Minister Shahristani invited some of the bidders who had rejected his terms to submit new bids, which the Iraqi cabinet will consider on July 1. While disappointed with what they saw as the GOI's unrealistic terms, most IOCs indicated they still intend to bid in the second round later this year, which will offer rights to work fields that are not currently producing. End summary.

The Bid Outcome

[¶](#)12. (U) The Ministry of Oil (MoO) required that bids contain two parameters: (1) the amount per barrel that the MoO will pay the contractor for production increases over baseline production (remuneration fee, RF); and (2) the production rate that will be reached and sustained over a seven-year period (Plateau Production Target, PPT). The MoO also had a predetermined maximum remuneration fee that it did not disclose in advance. On Rumaila, a consortium led by ExxonMobil offered an RF of \$4.80/bbl and a PPT of 3.1 million barrels per day (bbl/d). BP and CNPC offered \$3.99 and 2.85 million bbl/d respectively. The MoO's maximum remuneration fee was then revealed to be \$2/bbl. ExxonMobil withdrew from bidding, but to the surprise of assembled oil executives and Ministry officials, BP/CNPC accepted the \$2/bbl RF after a lengthy delay.

[¶](#)13. (U) Mansuriya gas field drew no bids. Other bids were as follows:

Bai Hassan:

MoO parameters -- RF \$4/bbl

Conoco Phillips consortium bid -- RF \$26.70/bbl; PPT 390,000 bbl/d

Missan:

MoO parameters -- RF \$2.3/bbl

CNOOC consortium bid -- RF \$21.40; PPT 450,000 bbl/d

Kirkuk:

MoO parameters -- RF \$2/bbl
Royal Dutch Shell consortium bid -- RF \$7.89/bbl ;PPT 825,000 bbl/d

Zubair:

MoO parameters -- RF \$2/bbl
Eni consortium bid: RF \$4.80/bbl; PPT 1.125 million bbl/d
CNPC consortium bid: RF \$4.09/bbl; PPT 1.075 million bbl/d
ExxonMobil consortium bid: RF \$4.9/bbl; PPT 850,000 bbl/d
ONGC consortium bid: RF \$9.9/bbl; PPT 525,000 bbl/d

Akkaz gas field

MoO parameters -- RF \$8.50/bbl equivalent
Edison Int consortium bid -- RF \$38/bbl equivalent; PPT 425 million standard cubic feet per day (mmscf/d)

West Qurna:

MoO parameters -- RF \$1.90/bbl
Total bid -- RF \$7.5/bbl; PPT 900,000 bbl/d
Lukoil consortium bid -- RF \$6.49/bbl; PPT 1.5 million bbl/d
Repsol consortium bid -- RF \$19.30/bbl; PPT 650,000 bbl/d
ExxonMobil consortium bid -- RF \$4.00/bbl; PPT 2.325 million bbl/d
CNPC consortium bid -- RF \$2.60/bbl; PPT 1.9 million bbl/d

Oil Companies Dismayed

¶3. (SBU) A BP executive expressed some nervousness about the award to BP, tacitly acknowledging that the move had been very aggressive. He and other executives in attendance noted

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that the MoO's maximum remuneration fee provided an insufficient return on capital. In their view, an IOC brought the technology to map the subsurface geology and determine the best methods of production, but it typically acted as a project manager, relying on a range of subcontractors to provide services. Lack of information on the availability and competence of such subcontractors in Iraq complicated the task of calculating investment risk and the likelihood of meeting contract commitments. The partnership with CNPC provided an advantage, since CNPC was more self sufficient and typically conducted a broader range of oil field activity than Western oil companies. BP executives, however, justified their decision to accept a remuneration rate only half their planned offer by stating that this would just be the start of a hard negotiating process with the MoO on actual terms.

¶4. (SBU) When we expressed surprise that relatively few national oil companies, which have ready access to credit, had submitted bids, the BP executive noted, "there's deep pockets and there's commercial suicide!" He also observed that ExxonMobil had "come here to win," with serious bids on three fields and, in his opinion, unrealistically high plateau production targets. Other oil company executives noted the unrealistic plateau production targets contained in numerous bids, with ExxonMobil's offer on West Qurna being nearly ten times current production. While the fields had the potential, they could not reach the target production within the strict time lines mandated.

Team China Attempts to Win the Black Gold in the Iraq Limbo Contest:

How Low Can You Go?

¶5. (C) Chinese companies entered bids on seven of the eight fields on offer as either the operator or as part of a consortium. Chinese companies did not bid on Mansuriya, but neither did any other company. On all three of the fields with multiple bids, a consortium containing CNPC - which is already working the Ahdab oil field in Wasit province - was

the lowest bidder. A consortium with CNPC in it bid on five fields. (Comment: Despite the strong effort and the low bids, the Chinese still balked at the MoO MRFs and walked away only as junior partner in the BP/CNPC Rumaila consortium. Several IOCs speculated that CNPC was the driving force behind BP accepting the MoO MRF for the Rumaila fields. End Comment)

MoO Bureaucrats Shocked

¶6. (C) The staff of the Petroleum Contracts and Licensing Directorate (PCLD) ostensibly in charge of the contracts and the bidding process expressed surprise at the MRFs that were revealed only after the bids were opened. One PCLD official told EconOff he believed that the MRF on Rumaila should have been \$3.5. None of the PCLD officials at the event said they knew the final MRFs in advance - although they had clearly done some of the advance work on the MRF calculations, which in the end went to Minister Shahristani for a final decision - and several gasped when several MRFs were revealed. Some PCLD members said the bid round would be a failure if the MoO awarded less than four fields, others said less than three fields. In the end, more than one PCLD staff member told EconOff they just wanted to go home and sleep.

The Silver Lining?

¶7. (C) In a conversation with EMIN, Prime Ministerial AQ"W(R~icQBP.QQ
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very high production plateau, were announced, there was stunned silence when the \$2 MRF was revealed. Giggles were heard when subsequent MRFs were opened; the delegation from Indonesia's Pertamina actually started pointing and laughing as an image of the MRFs were displayed on a screen. For his part, Minister Shahristani grimaced on several occasions as he opened the bid envelopes and saw how far apart most bids were from his MRFs.

¶9. (C) While Shahristani clearly miscalculated in determining the MRFs, it is too soon to call the first bid round a complete failure. First because the cabinet on July 1 could find the way to move forward with the last-minute bids. Second because Shahristani could learn from his mistakes and make improvements that will make the next bid round - or an intervening round, if he decides to offer some of these same fields again - more successful. IOC representatives braved sandstorms and the threat of increased violence to be in Baghdad even though many had voiced their concerns about this bid round; their long-term interest in Iraq is clear, but only with better economic terms. Minister Shahristani braved repeated denunciations from across the political spectrum and within his ministry, yet stuck with his vision of the bid round as the best means to help Iraq's economy. The MoO staff worked a national holiday after months of preparation for this event. All parties were clearly disappointed with the result of their efforts. But all appear determined to try to keep moving the process forward.

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offers hope that negotiations will begin on more of the fields, it could prompt complaints from BP, and will certainly raise the sort of suspicions about back-room deals that Shahristani was aiming to avoid.

Comment

¶8. (C) The bid round got off to an impressive start. The MOO and PCLD had clearly done their homework, producing an event designed to highlight the minister's promise of transparency. That changed the moment the MRF for the first field was

opened. While there had been a buzz in the room when the ExxonMobil and BP bids for Rumaila, which both featured a very high production plateau, were announced, there was stunned silence when the \$2 MRF was revealed. Giggles were heard when subsequent MRFs were opened; the delegation from Indonesia's Pertamina actually started pointing and laughing as an image of the MRFs were displayed on a screen. For his part, Minister Shahristani grimaced on several occasions as he opened the bid envelopes and saw how far apart most bids were from his MRFs.

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